

DAFTER TOWNSHIP, CHIPPEWA COUNTY

STATE OF MICHIGAN

AUDITED FINANCIAL STATEMENTS  
AND OTHER FINANCIAL INFORMATION

March 31, 2008

# TABLE OF CONTENTS

	PAGE
AUDITED FINANCIAL STATEMENTS:	
INDEPENDENT AUDITORS' REPORT . . . . .	1
MANAGEMENT'S DISCUSSION AND ANALYSIS. . . . .	2-6
BASIC FINANCIAL STATEMENTS:	
Government-Wide Statement of Net Assets. . . . .	7
Government-Wide Statement of Activities. . . . .	8
FUND FINANCIAL STATEMENTS:	
Governmental Fund Balance Sheet. . . . .	9
Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance. . . . .	10
Reconciliation of the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities. . . . .	11
Fiduciary Funds - Statement of Net Assets. . . . .	12
Fiduciary Funds - Statement of Changes in Net Assets . . . . .	13
Notes to Financial Statements. . . . .	14-27
REQUIRED SUPPLEMENTAL INFORMATION:	
Budgetary Comparison Schedule - General Fund. . . . .	28-29
Budgetary Comparison Schedule - Special Revenue Fund - Fire Fund. . . . .	30



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## INDEPENDENT AUDITORS' REPORT

Township Board  
Dafter Township  
Dafter, MI 49721

We have audited the accompanying financial statements of the governmental activities and each major fund and the aggregate remaining fund information of Dafter Township as of and for the year ended March 31, 2008, which collectively comprise the Township's basic financial statements as listed in the Table of Contents. These basic financial statements are the responsibility of Dafter Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, each Major Fund and aggregate remaining fund information of Dafter Township as of March 31, 2008, and the respective changes in financial position where applicable thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2-6 and the budgetary comparisons on pages 28-30 are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Gillett, Halvorsen & Leonhardt, PC  
Certified Public Accountants

October 30, 2008  
Sault Ste. Marie, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

DAFTER TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2008

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Within this section of Dafter Township annual financial report, the Township's management provides a narrative discussion and analysis of the financial activities of the Township for the fiscal year ended March 31, 2008. Dafter Township's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section. The discussion focuses on the Township's primary government, unless otherwise noted.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The Township also includes in this report additional information to supplement the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Township's annual report includes two government-wide financial statements. These statements provide both long-term and short-term information of the Township's overall status. Financial reporting on this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide statements is the Statement of Net Assets. This is the township-wide statement of financial position presenting information that includes all of the Township's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township as a whole is improving or deteriorating. Evaluation of the overall economic health of the Township would extend to other nonfinancial factors such as diversification of the taxpayer base or the condition of Township infrastructure in addition to the financial information provided in this report.

The second government-wide statement is the Statement of Activities which reports how the Township's net assets changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of this statement of activities is to show financial reliance of the Township's distinct activities or functions on revenues provided to the Township.

DAFTER TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

March 31, 2008

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FUND FINANCIAL STATEMENTS

The Township has two kinds of funds:

Governmental funds are reported in the financial statements and encompass essentially the same functions reported as governmental activities in the government-wide financial statements. However, the focus is very different with fund statements providing a distinctive view of the Township's governmental funds. The statements report short-term fiscal accountability focusing on the use of spendable resources available at the end of the year. These are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between the two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balance provide a reconciliation to the government-wide statements to assist in understanding the differences between these two perspectives.

Budgetary comparison statements are included in the basic financial statements for the general fund and the Major Special Revenue Fund. These statements and schedules demonstrate compliance with the Township's adopted and final revised budgets.

Fiduciary funds such as the Pension Trust Fund and the Tax Collection Fund are reported in the fiduciary fund financial statements, but are excluded from the government-wide reporting. Fiduciary fund financial statements report resources that are not available to fund Township programs. Fiduciary fund financial statements report similarly to proprietary funds.

NOTES TO THE FINANCIAL STATEMENTS

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements begin immediately following the basic financial statements.

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information, which follows the notes to the financial statements.

DAFTER TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

March 31, 2008

TOWNSHIP AS A WHOLE

The Township's assets exceed its liabilities by \$581,559 for the fiscal year reported.

Total net assets are comprised of the following:

- (1) Capital assets of \$110,868 include land, property and equipment net of accumulated depreciation.
- (2) Net assets of \$12,732 are restricted by constraints imposed from outside the Township such as grantors, laws or regulations.
- (3) Unrestricted net assets of \$457,959 represent the portion available to maintain the Township's continuing obligations

The Township's governmental funds reported total ending fund balance of \$470,691 this year. This compares to the prior year ending fund balance of \$403,338 showing an increase of \$67,353 during the current year.

In a condensed format, the table below shows the net assets of the Township at March 31, 2008.

	Governmental Activities
Current assets	\$463,839
Restricted assets	12,732
Non-current assets	110,868
	-----
Total Assets	\$587,439
	-----
Current Liabilities	\$ 5,880
	-----
Net Assets	
Invested in capital assets	\$110,868
Restricted	12,732
Unrestricted	457,959
	-----
Total Net Assets	\$581,559
	=====

DAFTER TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

March 31, 2008

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THE TOWNSHIP AS A WHOLE (CONTINUED)

The following table shows the activities of Dafter Township for the year ended March 31, 2008.

	Governmental Activities -----
Program Revenues	
Charges for services	\$ 38,614
Operating grants and contributions	15,022
General Revenues	
Taxes	63,434
State shared revenues	89,212
Interest income	15,734
Other income	2,510
	-----
Total Revenues	\$224,526
Program Expenses	
General government	\$ 78,510
Public safety	46,792
Public works	11,854
Culture and recreation	100
Other expenses	28,576
	-----
Total Expenses	\$165,832
	-----
Change in Net Assets	\$ 58,694
	=====

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUND

As discussed, governmental funds are reported in the fund statements with a short-term, inflow and outflow of spendable resources focus. This information is useful in assessing resources available at the end of the year in comparison with upcoming financing requirements. Governmental funds reported an ending fund balance of \$470,691. Of this year end total, \$457,959 is unreserved indicating availability for continuing Township activities. Reserved fund balances include \$12,732 committed to public works.

The general fund pays for all the Township's governmental services. These services were largely supported by property taxes and state shared revenues.



DAFTER TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

March 31, 2008

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GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Township Board amended the budget to take into account events during the year. The Township's actual expenditures exceeded the budgeted expenditures in one instance for a total of \$97 for the year ended March 31, 2008.

CAPITAL ASSET AND DEBT ADMINISTRATION

As of March 31, 2008, the Township had \$110,868 invested in a broad range of capital assets net of accumulated depreciation, including building, fixtures and office equipment. In addition, the Township has invested significantly in roads within the Township. The roads are not reported in the Township's financial statements because of Michigan law, which makes these roads the property of the Chippewa County Road Commission (along with the responsibility to maintain them).

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Because of the impact of Proposal A, the Township needs to continue to watch its budget very closely. The state-wide tax reform act limits growth in taxable value on any individual property to the lesser of 5% or inflation. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the Township will grow less than by inflation, before considering new property additions. Also, reductions in State Revenue sharing continues to impact the township.

CONTACTING THE TOWNSHIP'S MANAGEMENT

The financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Township's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the Supervisor's office at: 2926 W. 10 Mile Road, Dafter, MI 49724 or (906) 632-1570.

BASIC FINANCIAL STATEMENTS

DAFTER TOWNSHIP

GOVERNMENT-WIDE STATEMENT OF NET ASSETS

March 31, 2008

		GOVERNMENTAL ACTIVITIES
ASSETS		
Current Assets		
Cash and equivalents		\$434,150
Due from other funds		2,750
Due from other governmental units		21,057
Taxes receivable		5,882
Restricted Assets		
Cash and equivalents		12,732
Capital Assets - Net		110,868
		-----
TOTAL ASSETS		\$587,439
		=====
LIABILITIES		
Current Liabilities		
Accounts payable		\$ 5,880
		-----
TOTAL LIABILITIES		\$ 5,880
NET ASSETS		
Invested in capital assets		\$110,868
Restricted for: Public works		12,732
Unrestricted		457,959
		-----
TOTAL NET ASSETS		\$581,559
		=====

See accompanying notes to financial statements and independent auditors' report.

DAFTER TOWNSHIP

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

For the year ended March 31, 2008

=====					
PROGRAM REVENUES					
-----					
FUNCTIONS/PROGRAMS	EXPENSES	CHARGES FOR SERVICES	OPERATING CAPITAL		NET (EXPENSES) REVENUES
			GRANTS AND CONTRI- BUTIONS	GRANTS AND CONTRI- BUTIONS	
=====					
GOVERNMENTAL ACTIVITIES					
General government	\$ 78,510	\$ 37,591	\$ 4,333	\$ -0-	\$ (36,586)
Public safety	46,792	-0-	7,455	-0-	(39,337)
Public works	11,854	1,023	3,234	-0-	(7,597)
Cultural and recreation	100	-0-	-0-	-0-	(100)
Other functions	28,576	-0-	-0-	-0-	(28,576)
-----					
TOTAL GOVERNMENTAL ACTIVITIES	\$165,832	\$ 38,614	\$15,022	\$ -0-	\$ (112,196)
=====					
GENERAL REVENUES					
Taxes					63,434
State shared revenues					89,212
Interest income					15,734
Other income					2,510
-----					
TOTAL GENERAL REVENUES					\$ 170,890
-----					
CHANGE IN NET ASSETS					\$ 58,694
-----					
NET ASSETS - APRIL 1, 2007					522,865
-----					
NET ASSETS - MARCH 31, 2008					\$ 581,559
=====					

See accompanying notes to financial statements and independent auditors' report.

DAFTER TOWNSHIP  
GOVERNMENTAL FUND BALANCE SHEET

March 31, 2008

	GENERAL FUND	FIRE FUND	TOTAL GOVERNMENTAL FUNDS
ASSETS			
Cash and equivalents	\$444,149	\$ 2,733	\$446,882
Due from other funds	2,750	-0-	2,750
Due from other governmental units	21,057	-0-	21,057
Taxes receivable	5,882	-0-	5,882
	-----	-----	-----
TOTAL ASSETS	\$473,838	\$ 2,733	\$476,571
	=====	=====	=====
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 4,112	\$ 1,768	\$ 5,880
	-----	-----	-----
TOTAL LIABILITIES	\$ 4,112	\$ 1,768	\$ 5,880
FUND BALANCES			
Restricted for public works	\$ 12,732	\$ -0-	\$ 12,732
Unrestricted	456,994	965	457,959
	-----	-----	-----
TOTAL FUND BALANCES	\$469,726	\$ 965	\$470,691
	=====	=====	=====
Amount reported for governmental activities in the statement of net assets are different because:			
Capital assets of \$287,890, net of accumulated depreciation of \$159,790, are not financial resources and, therefore, are not reported in the fund. See Note 5 for additional detail.			110,868
			-----
NET ASSETS OF GOVERNMENTAL ACTIVITIES			\$581,559
			=====

See accompanying notes to financial statements and independent auditors' report.

DAFTER TOWNSHIP

GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES

For the year ended March 31, 2008

	GENERAL FUND	FIRE FUND	TOTAL GOVERNMENTAL FUNDS
REVENUES			
Taxes	\$ 63,434	\$ -0-	\$ 63,434
Licenses and fees	31,802	-0-	31,802
State grants	3,234	-0-	3,234
State shared revenues	89,212	-0-	89,212
Contributions from local units	-0-	7,455	7,455
Payments in lieu of taxes	4,333	-0-	4,333
Charges for services	4,564	1,023	5,587
Interest income	15,446	288	15,734
Rental income	1,225	-0-	1,225
Other income	1,734	776	2,510
TOTAL REVENUES	\$214,984	\$ 9,542	\$224,526
EXPENDITURES			
General government	\$ 76,005	\$ -0-	\$ 76,005
Public safety	3,753	36,885	40,638
Public works	11,854	-0-	11,854
Culture and recreation	100	-0-	100
Other expenditures	28,576	-0-	28,576
TOTAL EXPENDITURES	\$120,288	\$ 36,885	\$157,173
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	\$ 94,696	\$ (27,343)	\$ 67,353
OTHER FINANCING SOURCES (USES)			
Operating transfers in	\$ -0-	\$ 28,000	\$ 28,000
Operating transfers out	(28,000)	-0-	(28,000)
TOTAL OTHER FINANCING SOURCES (USES)	\$(28,000)	\$ 28,000	\$ -0-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES (USES) OVER EXPENDITURES	\$ 66,696	\$ 657	\$ 67,353
FUND BALANCES - APRIL 1, 2007	403,030	308	403,338
FUND BALANCES - MARCH 31, 2008	\$469,726	\$ 965	\$470,691

See accompanying notes to financial statements and independent auditors' report.

DAFTER TOWNSHIP

RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES

For the year ended March 31, 2008

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Net change in Fund Balance - Governmental Funds                $ 67,353

Amounts reported for governmental activities in the
statement of activities are different because:

Governmental funds report capital outlays as expenditures.
However, in the statement of activities, the cost of those
assets is allocated over their estimated useful lives and
reported as depreciation expense. This is the amount by
which capital outlay of $5,212 was exceeded by depreciation
of $13,871 in the current period.                                (8,659)
-----
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES                $ 58,694
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See accompanying notes to financial statements and independent auditors' report.

DAFTER TOWNSHIP  
FIDUCIARY FUNDS  
STATEMENT OF NET ASSETS

March 31, 2008

		AGENCY FUND TYPE
	PENSION FUND TYPE	TAX COLLECTION FUND
ASSETS		
Cash and investments	\$70,748	\$ 5,089
	=====	=====
LIABILITIES		
Due to other funds	\$ -0-	\$ 2,750
Due to other governmental units	-0-	2,339
	-----	-----
TOTAL LIABILITIES	\$ -0-	\$ 5,089
	-----	=====
NET ASSETS		
Held in trust for pension benefits	\$70,748	
	=====	

See accompanying notes to financial statements and independent auditors' report.



DAFTER TOWNSHIP  
FIDUCIARY FUNDS  
STATEMENT OF CHANGES IN NET ASSETS

For the year ended March 31, 2008

	PENSION FUND TYPE
ADDITIONS	
Contributions	\$ 8,950
	-----
TOTAL ADDITIONS	\$ 8,950
DEDUCTIONS	
Net unrealized loss on investments	\$ 2,391
Administrative expenses	1,134
	-----
TOTAL DEDUCTIONS	\$ 3,525
CHANGE IN NET ASSETS	\$ 5,425
NET ASSETS - APRIL 1, 2007	65,323
	-----
NET ASSETS - MARCH 31, 2008	\$ 70,748
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See accompanying notes to financial statements and independent auditors' report.

NOTES TO FINANCIAL STATEMENTS

DAFTER TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

March 31, 2008

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Dafter Township, conform to the accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The following is a summary of the significant accounting policies used by the Township:

A - REPORTING ENTITY

Financial Reporting Entity

Dafter Township is a regular law Michigan township located in the eastern portion of Michigan's Upper Peninsula.

The Township operates under an elected Board of Trustees and provides services to its residents in many areas including fire and ambulance protection, community enrichment and development, public works, parks and recreation, and general administrative services.

The Township, for financial purposes, includes all funds relevant to the operations of Dafter Township. The financial statements herein do not include agencies which have been formed under applicable State laws or separate and distinct units of government apart from Dafter Township.

B - GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable. Dafter Township has no business-type activities or separate component units.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital or

DAFTER TOWNSHIP

NOTE TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2008

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B - GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONTINUED)

capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. Dafter Township has the general fund and special revenue fund for fire.

C - MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Taxes Receivable - Current Property Taxes

The Dafter Township property tax is levied on each December 1st on the taxable valuation of property (as defined by State statutes) located in Dafter Township as of the preceding December 31st.

DAFTER TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2008

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C - MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT  
PRESENTATION (CONTINUED)

Although Dafter Township 2007 ad valorem tax is levied and collectible on December 1, 2007, it is Dafter Township's policy to recognize revenue from the current tax levy in the current year.

The 2007 taxable valuation of Dafter Township totaled \$30,569,000, on which ad valorem taxes levied consisted of 1.650 mills for Township operating purposes.

The Township reports the following major governmental funds:

General Fund

This is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Fire Fund

This fund accounts for the amounts designated to support fire protection services within the Township.

Additionally, the Township reports the following fund types:

Fiduciary Funds - Agency

Agency Funds are used to account for assets held by the Township as an agent for individuals, private organizations, other governments, and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

All other revenue items are considered to be available only when cash is received by the government.

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

DAFTER TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2008

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C - MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT  
PRESENTATION (CONTINUED)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's tax collection function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

D - ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Bank Deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of twelve months or less when acquired. Deposits are recorded at cost.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds."

All trade and property tax receivables are shown as net of allowances for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Items - All inventories, including the cost of supplies, are expensed when purchased. Payments made to vendors for services that will benefit periods beyond March 31, 2008, are recorded as prepaid items.

DAFTER TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2008

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D - ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (CONTINUED)

Fund Balance- In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Capital Assets - Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$200 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building Improvements	15 to 30 years
Vehicles	3 to 5 years
Office Equipment	5 to 7 years
Computer Equipment	3 to 7 years

Grants and Other Intergovernmental Revenue - Federal grants and assistance awards for all governmental type funds are recorded as intergovernmental revenue in accordance with the terms of the respective grants.

E - USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the reporting period. Actual results could differ from those estimates.

DAFTER TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2008

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NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information - Annual budgets are adopted on a basis consistent with U.S. generally accepted accounting principles.

Budgets and Budgetary Control - The Township follows these procedures in establishing the budgetary data reflected in the financial statements.

- a. Each March, the Township Board prepares a proposed operating budget for the fiscal period commencing April 1 and lapses on March 31. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to April 1, the budget is legally enacted through a resolution passed by the Township Board.
- d. Budgetary control is exercised at the Township Board level for the General Fund. Any revisions that alter the total expenditures of any fund (i.e., budget amendments) require approval by the Township Board. Such amendments are made in accordance with the procedures prescribed under Public Act 621 of 1978.
- e. The budget and approved appropriations lapse at the end of the fiscal year.
- f. The Township does not record encumbrances in the accounting records during the year as normal practice and, therefore, no outstanding encumbrances exist at year end.

Budgeted amounts are as originally adopted or amended by the Township Board during the year. Individual amendments were not material in relation to the original appropriations which were amended. The modified accrual basis of accounting is used for budgetary purposes.

The General fund budget was adopted on the basis of activities or programs financed by the General Fund.



DAFTER TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2008

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

Michigan Public Act 621 of 1978 (the Budgeting Act) requires that budgets be adopted for Governmental Funds. U.S. generally accepted accounting principles require that the financial statements present budgetary comparisons for the Governmental Fund Types for which budgets were legally adopted. The original budget adopted for the General and the major funds were modified throughout the year through various budget amendments. The budget document presents information by fund, function, department and line items. The legal level of budgetary control adopted by the governing body is the Township Board level.

NOTE 3 - DEPOSITS AND INVESTMENTS

At year-end, the Township's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
	-----	-----	-----
Cash and Cash Equivalents -			
Restricted	\$ 12,732	\$ -0-	\$ 12,732
Unrestricted	434,150	5,089	439,239
Investments			
Pension Trust Fund	-0-	70,748	70,748
	-----	-----	-----
Totals	\$446,882	\$ 75,837	\$522,719
	=====	=====	=====

The breakdown between deposits and investments is as follows:

	Primary Government
	-----
Cash and Cash Equivalents	
Bank deposits - checking	\$217,718
Bank deposits - savings	7
Certificate of deposits	234,246
	-----
Total	\$451,971
	=====

DAFTER TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2008

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NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments

In accordance with GASB 3 risk disclosure for insurance annuities are non risk categorized.

	Carrying Value -----	Market Value -----
Non risk - Categorized		
Pension Trust Fund		
Insurance annuities	\$70,748	\$70,748

Dafter Township has investments with the Manufacturers Life Insurance for the Defined Contribution Pension Trust Fund which is presented at fair value of the plan assets.

Investment and Deposit Risk

Interest rate risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments.

Credit Risk. The Township has no investments for which ratings are required.

Custodial Credit Risk. Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned. State law does not require and the Township does not have a policy for deposit custodial credit risk. As of March 31, 2008 \$174,536 of the Township's bank balance of \$476,822, was exposed to credit risk because it was uninsured and uncollateralized.

Statutory Authority:

Michigan Compiled Laws, Section 129.91, authorizes the local governmental unit to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as

DAFTER TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2008

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Statutory Authority - (Continued)

investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Local Governmental Unit Board has designated four banks for the deposit of Local Unit funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized deposits and investments as above.

The Township's deposits and investment policy are in accordance with statutory authority.

At year end, the carrying amount of the Township's primary and fiduciary deposits was \$451,971 and the bank balance was \$476,822. Of the bank balance, \$302,286, was covered by federal depository insurance according to FDIC regulations. Also, during the year the Township had funds in excess of \$100,000 on deposit in a particular financial institution which would not have been covered by federal depository insurance. These deposits are in various financial institutions in varying amounts. All accounts are in the name of the Township. They are recorded in Township records at cost. Interest is recorded when the deposits mature or is credited to the applicable account.

NOTE 4 - RECEIVABLES

Receivables:	General Fund	Fire Fund	Total
Due from other funds	\$ 2,750	\$ -0-	\$ 2,750
Due from other governmental units	21,057	-0-	21,057
	-----	-----	-----
Total Receivables	\$23,807	\$ -0-	\$23,807
	=====	=====	=====

DAFTER TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2008

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the primary government for the current year was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 39,003	\$ -0-	\$ -0-	\$ 39,003
Capital assets being depreciated:				
Buildings	\$150,200	\$ -0-	\$ -0-	\$150,200
Machinery and equipment	104,187	5,212	-0-	109,399
	-----	-----	-----	-----
Subtotal	\$254,387	\$ 5,212	\$ -0-	\$259,599
	-----	-----	-----	-----
Less accumulated depreciation for:				
Buildings	\$ 93,014	\$ 2,804	\$ -0-	\$ 95,818
Machinery and equipment	80,849	11,067	-0-	91,916
	-----	-----	-----	-----
Subtotal	\$173,863	\$ 13,871	\$ -0-	\$187,734
	-----	-----	-----	-----
Net capital assets being depreciated	\$ 80,524	\$ (8,659)	\$ -0-	\$ 71,865
	-----	-----	-----	-----
Governmental Activity Capital Total				
Capital Assets-Net of Depreciation	\$119,527	\$ (8,659)	\$ -0-	\$110,868
	=====	=====	=====	=====

Depreciation expense was charged to programs of primary government as follows:

Governmental Activities:	
General Fund	
General Government	\$ 2,505
Fire Fund	
Public Safety	11,366
	-----
Total Depreciation Expense	\$13,871
	=====

DAFTER TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2008

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund receivable and payable balances at March 31, 2008 is as follows:

Interfund Receivable		Interfund Payable	
-----		-----	
General	\$2,750	Tax Collection	\$2,750

There was a \$28,000 interfund transfer from the General Fund to the Fire Fund during the year ended March 31, 2008.

NOTE 7 - RESTRICTED NET ASSETS AND CONTINGENCIES

The Township received \$3,234 under the Metropolitan Extension Telecommunications Right-of-Way Oversight Act (PA 48 of 2002, MCLS 484.3101 - 3120), also known as the "Metro Act". This represents the Township's portion of the fees being paid to the state by telecommunication providers for the Right-of-Way used within the Township. This funding is restricted in use to the maintenance of the aforementioned right-of-way. As of March 31, 2008, \$-0- in expenditures have been made for this purpose. The restricted balance as of March 31, 2008 is \$12,732.

NOTE 8 - LEGAL COMPLIANCE

Excess of Expenditures over Appropriations in Budgeted Funds

The Uniform Budgeting and Accounting Act P.A. 2 of 1968 as amended (MCL 141.421 et seq.), provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated. Dafter Township's actual expenditures and budgeted expenditures have been shown on an activity basis. The approved budgets for Dafter Township for the budgeted budgeted funds were adopted to the activity level.

During the year, Dafter Township incurred expenditures in certain budgeted funds, which were in excess of the amounts appropriated as follows:

<u>Fund</u>	<u>Appropriated</u>	<u>Expended</u>	<u>Variance</u>
General Fund			
Public Utilities			
Street lights	\$ 1,700	\$ 1,797	\$ 97

DAFTER TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2008

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NOTE 9 - DISTRIBUTION OF TAX COLLECTION

The Township must remit to the schools and the County total taxes collected through the 1st and 15th day of each month within 10 business days after the 1st and 15th day of each month. In addition, the Township is required to remit within ten business days, at least 90% of the total property tax collections on hand as of February 28 for tax revenues that were collected for other taxing units. During the year ended March 31, 2008, the Township did not remit taxes to the schools and the county within the required time periods.

NOTE 10 - DEFINED CONTRIBUTION PLAN

Dafter Township maintains a defined contribution plan through Burnham & Flower Agency, Inc. using the Manufacturers Life Insurance Company (USA). The plan name is the Manulife Financial Defined Contribution Pension Plan for Governmental Employees. The plan administrator is the clerk of Dafter Township. The plan is a money purchase pension plan also called a defined contribution, individual account plan because contributions to the plan are fixed and the retirement benefit is that which the total amount of contributions and earnings (money) will provide (purchase) for each employee.

Participants in the plan are all elected officials of the Township who have attained age 18 and not more than age 75. Currently there are six people in the plan as of March 31, 2008.

The Township Board has a policy that permits the Township to have a defined contribution plan which they can amend. They have designated the clerk as plan administrator.

Contributions to the plan for elected officials are made by Dafter Township at a rate of 25% of annual compensation. The contributions for the plan year were \$8,500 by Dafter Township and \$450 by employees.

The funds of the Dafter Township defined contribution pension plan are invested in Manulife Financial general account at interest rates which are guaranteed if held to maturity. These accounts invest primarily in federal and other governmental bonds, corporate bonds and commercial mortgages and are presented at fair market value on the cash basis.

DAFTER TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2008

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NOTE 11 - RISK MANAGEMENT

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as workmens compensation benefits provided to employees.

The Township participates in the Michigan Township Participating plan for general liability, property loss, automobile, professional, public official errors and omissions liabilities. This plan is a self insurance risk association operating within the State of Michigan pursuant to Act 138, Michigan Public Acts of 1982. This plan through its risk manager, secures insurance policies or reinsurance treaties to cover the risks undertaken on behalf of the Township above the \$100 deductible amount. The Township pays an annual premium of \$13,206 for this plan. The plan has a maximum liability for general liability of \$3,000,000, wrongful acts of \$2,000,000 and automobile liability of \$1,000,000.

Therefore, the Township has no additional liabilities beyond the contribution made to the Michigan Township Participating Plan for general liability, property loss, automobile, professional, public official error and omissions liabilities as it is covered by insurance policies or reinsurance treaties obtained by the plan.

In addition, the Township has purchased commercial insurance for workmens compensation benefits.

Settled claims for the insurance have not exceeded the amount of coverage in the past three years. There was no reduction in coverage obtained through insurance during the past year.

NOTE 12 - CONTINGENT LIABILITIES

The Township has received financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Township. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the Township at March 31, 2008.

DAFTER TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2008

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NOTE 13 - POSTEMPLOYMENT

Dafter Township does not provide any postemployment benefits and, therefore, no accrual has been recorded for these benefits as of March 31, 2008.

NOTE 14 - COMPENSATED ABSENCES

Dafter Township does not have a vacation or a sick leave benefit policy and, therefore, no accrual has been recorded for these benefits as of March 31, 2008.

NOTE 15 - BUDGET AMENDMENTS

Once approved, the Township may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations. There were no authorized budget amendments approved during the year.



REQUIRED SUPPLEMENTAL INFORMATION

DAFTER TOWNSHIP

BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND

For the year ended March 31, 2008

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET
BEGINNING OF YEAR FUND BALANCE	\$ 403,030	\$ 403,030	\$403,030	\$ -0-
RESOURCES (INFLOWS)				
Taxes	40,000	40,000	63,434	(23,434)
Licenses and fees	20,000	20,000	31,802	(11,802)
State grants	-0-	-0-	3,234	(3,234)
State revenue sharing	78,000	78,000	89,212	(11,212)
Contributions from local units	4,000	4,000	4,333	(333)
Charges for services	1,400	1,400	4,564	(3,164)
Interest income	4,000	4,000	15,446	(11,446)
Rental income	1,000	1,000	1,225	(225)
Other income	5,100	5,100	1,734	3,366
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 153,500	\$ 153,500	\$214,984	\$ (61,484)
CHARGES TO APPROPRIATIONS (OUTFLOWS)				
General Government				
Township board	\$ 4,420	\$ 4,420	\$ 4,097	\$ 323
Supervisor	9,900	9,900	9,620	280
Treasurer	14,500	14,500	14,087	413
Assessor	11,144	11,144	10,722	422
Clerk	12,950	12,950	12,375	575
Board of Review	1,000	1,000	733	267
Elections	4,300	4,300	2,757	1,543
Attorney and auditor	5,000	5,000	4,318	682
Township hall	20,986	20,986	17,296	3,690
Public Safety				
Zoning	4,950	4,950	3,376	1,574
Land division	1,400	1,400	377	1,023
Public Works				
Roads	300,693	300,693	6,662	294,031
Streetlights	1,700	1,700	1,797	(97)
Refuse	2,300	2,300	1,633	667
Other public works	5,400	5,400	1,762	3,638
Culture and Recreation				
Library	100	100	100	-0-
Parks and recreation	40,000	40,000	-0-	40,000

See accompanying notes to financial statements and independent auditors' report.

DAFTER TOWNSHIP

BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND (CONTINUED)

For the year ended March 31, 2008

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET
EXPENDITURES (CONTINUED)				
Other Functions				
Insurance and bonds	\$ 15,000	\$ 15,000	\$ 14,693	\$ 307
Employee benefits	15,500	15,500	13,883	1,617
Transfer to Other Funds	50,000	50,000	28,000	22,000
	-----	-----	-----	-----
TOTAL CHARGES TO APPROPRIATIONS	\$ 521,243	\$ 521,243	\$148,288	\$ 372,955
	-----	-----	-----	-----
BUDGETARY FUND BALANCE - MARCH 31	\$ 35,287	\$ 35,287	\$469,726	\$ (434,439)
	=====	=====	=====	=====

See accompanying notes to financial statements and independent auditors' report.

DAFTER TOWNSHIP

BUDGETARY COMPARISON SCHEDULE  
MAJOR SPECIAL REVENUE FUND - FIRE FUND

For the year ended March 31, 2008

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET
BEGINNING OF YEAR FUND BALANCE	\$ 308	\$ 308	\$ 308	\$ -0-
RESOURCES (INFLOWS)				
Federal grant	4,000	4,000	-0-	4,000
State grant	1,500	1,500	-0-	1,500
Contribution from local units	6,000	6,000	7,455	(1,455)
Charges for services	-0-	-0-	1,023	(1,023)
Interest income	300	300	288	12
Other income	1,500	1,500	776	724
Transfer from other funds	26,700	26,700	28,000	(1,300)
AMOUNTS AVAILABLE FOR APPROPRIATIONS	\$ 40,000	\$ 40,000	\$ 37,542	\$ 2,458
CHARGES TO APPROPRIATIONS (OUTFLOWS)				
Public safety	\$ 40,000	\$ 40,000	\$ 36,885	\$ 3,115
BUDGETARY FUND BALANCE - MARCH 31	\$ 308	\$ 308	\$ 965	\$ (657)

See accompanying notes to financial statements and independent auditors' report.



# GILLETT, HALVORSEN & LEONHARDT, P.C.

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## COMMUNICATION OF SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES IN INTERNAL CONTROL AND OTHER MATTERS

October 30, 2008

Township Board  
Dafter Township  
Dafter, Michigan 49724

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Dafter Township, as of and for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Dafter Township's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Dafter Township's internal control. Our consideration of internal control included procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented, but it did not include procedures to test the operating effectiveness of controls, and accordingly, was not directed to discovering significant deficiencies in internal control. Accordingly, we do not express an opinion on the effectiveness of Dafter Township's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. The following are the significant deficiencies or material weaknesses findings that we noted during our audit:

#### Segregation of Duties

Separation of duties between persons who authorize transactions and persons who have control over the related assets does not exist to the extent possible in larger entities with several employees involved in the accounting process.

The least desirable accounting system is one in which the employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of accounting duties substantially increases control over errors without duplication of effort.

The desired separation of duties cannot be achieved with a few employees involved. The careful and consistent oversight provided by the Township Board appears to offset the inability to separate various accounting functions and should be continued. The Township Board maintains monitoring of current operations. Operating results are reviewed monthly which provides significant oversight for the inspection of any irregularities and discrepancies. The cost for additional staff to enable separation of duties is likely not economically justified and therefore, the Township Board's oversight is assisting in this internal control function. Our finding is intended only to point out that this element of internal control separation of duties does not, and at present, cannot exist.

#### Financial Statement Preparation

The Statement on Auditing Standards #112 requires us to communicate in writing when a client requires assistance to prepare the financial statements and footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America. Dafter Township does not have procedures in place to prepare financial statements in accordance with U.S. generally accepted accounting principles, and to present required financial statement disclosures. Historically, Dafter Township relied on its independent external auditors to assist in the preparation of the financial statements and footnotes.

#### Fraud Policy

With the implementation of Statement on Auditing Standards No. 99, auditors are required to assess policies and procedures regarding fraud risks within a governmental entity. The Board does not have a "fraud policy" which would address fraud or suspected fraud and related board actions. We recommend the Board adopt a fraud policy in compliance with SAS No. 99.

### Budget

During the current year, expenditures exceeded the amount appropriated in one instance. Therefore, the Township has not complied with P.A. 621 of 1978, Section 18(1), as amended, which states that a local unit of government shall not incur expenditures in excess of the amount appropriated. We recommend that budget categories should not be over expended and that the budget be monitored and amended as necessary during the year.

### Cash and Investments

At year end, the Township had \$174,536 in deposits with financial institutions that were uninsured by federal depository insurance. Also, during the year the Township had funds in excess of \$100,000 on deposit in a particular financial institution which would not have been covered by federal depository insurance. We recommend that the Township insure all funds.

### Delinquent Tax Remittance

Townships with a state equalized valuation in excess of \$15,000,000 must remit to schools and the County total taxes collected through the 1st and 15th of each month within 10 business days after the 1st and 15th day of each month. In addition, the Township is required to remit within 10 business days at least 90% of the total property tax collections on hand as of February 28. The Township did not follow the above payment schedule during the year ended March 31, 2008. We recommend that the Township prepare a schedule based upon the above criteria to remind them of the required due dates.

### Expenditure Authorization

During the year expenditures were made without board authorization. We recommend that expenditures made between board meetings be authorized at that following meeting.

### Review of Bank Reconciliations

It was noted that during the year there were several expenditures that were not recorded on the general ledger and several items that were included twice. There was also no indication that the bank statements were reconciled and compared to the balance per the general ledger. We recommend that the bank statements be reconciled and compared to the general ledger balance on a timely basis to ensure the aforementioned errors are corrected accordingly.

This communication is intended solely for the information and use of the management, audit committee, Dafter Township Board of Trustees, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate and would like to thank Dafter Township's staff for the cooperation and courtesy extended to us during our audit. We would be pleased to discuss any comments or answer any questions regarding our audit with you at your convenience.

*Gillett, Halvorsen & Leonhardt, PC*

Gillett, Halvorsen & Leonhardt, P.C.  
Certified Public Accountants



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### COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

October 30, 2008

Township Board  
Dafter Township  
Dafter, Michigan 49724

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Dafter Township for the year ended March 31, 2008, and have issued our report thereon dated October 30, 2008. Professional standards require that we provide you with the following information related to our audit.

#### Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated September 19, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

#### Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you on September 19, 2008.

#### Significant Accounting Findings

##### **Qualitative Aspects of Accounting Practices**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Dafter Township are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.



Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statement was:

Management's estimate of the depreciation expense based on estimated lives. We evaluated the key factors and assumptions used to develop the estimate to determine that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

#### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### **Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

#### **Disagreement with Management**

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated October 30, 2008.

#### **Management Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us as to determine the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

## Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.

Auditing standards require us to report to you significant audit findings or issues. Following are the significant findings we noted during our audit:

### Segregation of Duties

There is a lack of segregation of duties in the accounting function due to the limited number of accounting personnel. This condition is generally inherent in organizations the size of Dafter Township, where corrective action is not practical, and to the extent possible, duties are allocated between accounting personnel to mitigate the risk of material asset misappropriation.

### Financial Statement Preparation

The Statement on Auditing Standards #112 requires us to communicate in writing when a client requires assistance to prepare the financial statements and footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America. Dafter Township does not have procedures in place to prepare financial statements in accordance with U.S. generally accepted accounting principles, and to present required financial statement disclosures. Historically, Dafter Township relied on its independent external auditors to assist in the preparation of the financial statements and footnotes.

### Fraud Policy

With the implementation of Statement on Auditing Standards No. 99, auditors are required to assess policies and procedures regarding fraud risks within a governmental entity. The Board does not have a "fraud policy" which would address fraud or suspected fraud and related board actions. We recommend the Board adopt a fraud policy in compliance with SAS No. 99.

### Budget

During the current year, expenditures exceeded the amount appropriated in one instance. Therefore, the Township has not complied with P.A. 621 of 1978, Section 18(1), as amended, which states that a local unit of government shall not incur expenditures in excess of the amount appropriated. We recommend that budget categories should not be over expended and that the budget be monitored and amended as necessary during the year.

### Cash and Investments

At year end, the Township had \$174,536 in deposits with financial institutions that were uninsured by federal depository insurance. Also, during the year the Township had funds in excess of \$100,000 on deposit in a particular financial institution which would not have been covered by federal depository insurance. We recommend that the Township insure all funds.

#### Delinquent Tax Remittance

Townships with a state equalized valuation in excess of \$15,000,000 must remit to schools and the County total taxes collected through the 1st and 15th of each month within 10 business days after the 1st and 15th day of each month. In addition, the Township is required to remit within 10 business days at least 90% of the total property tax collections on hand as of February 28. The Township did not follow the above payment schedule during the year ended March 31, 2008. We recommend that the Township prepare a schedule based upon the above criteria to remind them of the required due dates.

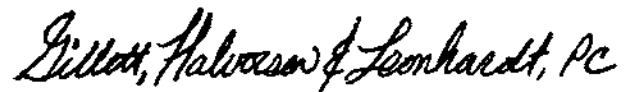
#### Expenditure Authorization

During the year expenditures were made without Board authorization. We recommend that expenditures made between board meetings be authorized at that following meeting.

#### Review of Bank Reconciliations

It was noted that during the year there were several expenditures that were not recorded on the general ledger and several items that were included twice. There was also no indication that the bank statements were reconciled and compared to the balance per the general ledger. We recommend that the bank statements be reconciled and compared to the general ledger balance on a timely basis to ensure the aforementioned errors are corrected accordingly.

This information is intended solely for the use of Dafer Township Board and is not intended to be and should not be used by anyone other than these specified parties.



Gillett, Halvorsen & Leonhardt, P.C.  
Certified Public Accountants